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Business, Transportation and Housing Agency

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February 18, 2010

via electronic mail & UPS

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF INLAND EMPIRE HEALTH PLAN MEDICAL LOSS RATIO  
SUBMISSION**

Dear Ms. Lopez

The Department of Managed Health Care (DMHC) is pleased to provide the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Inland Empire Health Plan (IEHP or Plan) HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation is to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers reported by IEHP.

As part of this evaluation, DMHC will perform the following:

- A Determine whether 100% of the children who received services paid by IEHP were enrolled in the HFP at the time the services or capitated coverage were provided;
- B Summarize the total capitation and benefit payments within the detailed data provided by IEHP and compare the total payments to the amount reported on Schedule 6 submitted by IEHP;
- C Identify and document additional reimbursements made, other than payments to providers for services, by IEHP, and evaluate the appropriateness of those payments to inclusion in the medical expenses reported on Schedule 6; and
- D Summarize the total payments made by IEHP for the HFP subscriber, and based on the steps above, recalculate the loss ratio and compare it to the loss ratio submitted by IEHP on Schedule 6.

To achieve the objectives outlined above, the DMHC performed data analysis on information provided by MRMIB and IEHP and corresponded with management personnel at IEHP. Primary contacts at IEHP were Joyce McShan, Compliance Manager, Brad Gilbert, CEO, Chet Uma, CFO, Karen Dibrell, Director of Financial Analysis, Susie White, Director of Network Operations, Patricia Kincannon, Director of Compliance, Gary Melton, Director of Health Administration, Sue Spooner, Director of Medical Management, Jacob Diekmann, Director of Healthcare Analytics, Sue Gengler,

Health Education Manager, Judy Bodden, Financial Analysis Manager, Terri Covarrubias, Application Support Manager. The methodology and results for each of the objectives are described below.

## II Methodology

### A Determined whether 100% of the children who received services paid by IEHP were enrolled in the HFP at the time the services were provided.

- (a) The Department obtained electronic files containing detailed capitation or claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for which payments were made for benefits as a IEHP subscriber during the period of July 1, 2007 through June 30, 2008.
- (b) Using the two files, the Department compared the Client Index Number (CIN) and Date of Service on IEHP's capitation files to determine if there were any payments made by IEHP for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 –Capitation, Fee for Service or Pharmacy payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims/Capitation Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount (footnote 1)	Percent Error on Amounts
Capitation payments	1,961,004	\$14,395,573	35,892	\$105,280	0.73%
Fee-for-Service Payments	54,544	\$11,963,438	513	\$109,674	0.92%
Pharmacy Payments	124,592	\$3,643,535	1,044	\$24,230	0.67%
Total	2,140,140	\$30,002,546	37,449	\$239,184	0.80%

Notes for Table 1: Capitation, FFS and Pharmacy payment mismatches identified during the examination were identified to the Plan during the course of the examination. The discrepancies noted in the areas of Capitation, FFS and Pharmacy were considered to be *de minimus* and although identified in Table 1 above were not recommended as audit adjustments.

### B Summarized the total capitation and benefit payments within the detailed data provided by IEHP and compared the total payments to the amount reported on Schedule 6 submitted by IEHP.

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers, not payments made by MRMIB to the Plans.*

Using the electronic file received from IEHP in Section II (A) (a) above, and IEHP's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files to the data on Schedule 6.

**Table 2** (difference between Sch 6 reported and database detail)

Description	Sch 6	Plan Data	Difference	Percent Difference
Capitation Payments	\$14,301,842	\$14,395,573	\$93,731	0.66%
Fee-for-Service Payments	\$12,008,065	\$11,963,438	(\$44,627)	-0.37%
Pharmacy Payments	\$3,532,190	\$3,643,535	\$111,345	3.15%
Total	\$1,918,873	\$1,915,587	(\$3,286)	0.54%

**Note 1:** The data base provided by IEHP was analyzed based on the period of service and has been determined the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through May 2009 after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs.

**Note 2:** The discrepancies between Schedule 6 and Plan's data base were considered immaterial and although identified in Table 2 above were not recommended as audit adjustments.

**C Summarized the total payments made by IEHP for the HFP subscriber, recalculated the loss ratio, and compared it to the loss ratio submitted by IEHP on Schedule 6**

Table 3 – Detailed reconciliation of detailed data files to Schedule 6

**Table 3**

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months	583,080	583,080	0
1	Premium Payments from State	\$41,190,894	\$41,190,894	\$0
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	<b>Expenses</b>			
	<b>Medical and Hospital</b>			
5	Inpatient Services - Capitated	\$517,542	\$517,542	\$0
6	Inpatient Services - Per Diem	\$8,523,576	\$8,523,576	\$0
7	Inpatient Services - Fee for Service/Case Rate	\$0	\$0	\$0
8	Primary Professional Services - Capitated	\$11,883,018	\$11,883,018	\$0
9	Primary Professional Services - Noncapitated	\$3,292,468	\$3,292,468	\$0
10	Other Medical Professional Services - Capitated	\$3,892,684	\$1,901,282	(\$1,991,402)
11	Other Medical Professional Services - Noncapitated	\$5,213,716	\$1,465,116	(\$3,748,600)
12	Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$0	\$0	\$0
13	POS Out-of-Network Expense	\$0	\$0	\$0
14	Pharmacy Expense	\$3,532,190	\$3,532,190	\$0
15	Other Medical Expense		\$1,991,402	\$1,991,402
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$0	\$0	\$0
17	Total Medical and Hospital (lines 5 to line 16)	\$36,855,194	\$33,106,594	(\$3,748,600)
A	<b>Gross Profit</b>	<b>\$4,335,700</b>	<b>\$8,084,300</b>	
B	<b>MEDICAL LOSS RATIO</b>	<b>89.47 %</b>	<b>80.37 %</b>	

**Note 1:** The \$3,892,684 expenses reported on line 10 as Other Medical Professional Services – Capitated included \$1,991,402 Allocation of non-Administrative costs. The \$1,991,402 allocation of non-Administrative costs has been reclassified to line 15 Other Medical Expenses.

**Note 2:** The \$5,213,716 expenses reported on line 11 Other Medical Professional Services – Noncapitated included \$3,748,600 attributed to the Children’s Health Access Fund. The \$3,748,600 Children’s Health Access Fund has been removed from Schedule 6 due to that the Plan was not able

to provide supporting documentation demonstrating that the expenses had been spent on enrollees of the Healthy Families Program.

### III Summary of Findings/Issues

The Plan erroneously reported \$1,991,402 Allocation of non-Administrative costs on line 10 Other Medical Professional Services – Capitated. Thus the \$1,991, 402 expenses has been reclassified to line 15 Other Medical Expenses. The Plan included \$3,748,600 as Children's Health Access Fund on line 11. The \$3,748,600 has been removed from Schedule 6 since there was no evidence provided to demonstrate that the expenses had been spent for the benefit of the enrollees of the HFP.


### IV. Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by IEHP on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

The Plan's comments letter regarding to the adjustments and DMHC's corresponding letter are attached to this report.

Please feel free to call us if you have any questions pertaining to this report.

Sincerely,



Shuzhi Wei, Examiner  
Division of Financial Oversight



Stephen Babich, Supervisor  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance auditor, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB  
Stephen Babich, Supervising Examiner, DMHC



A Public Entity

INLAND EMPIRE HEALTH PLAN

December 15, 2009

Sent via email: [sbabich@dmhc.ca.gov](mailto:sbabich@dmhc.ca.gov) and Regular Mail

Steven Babich,  
Supervising Examiner  
Department of Managed Health Care  
Division of Financial Oversight  
980 9<sup>th</sup> Street, Suite 500  
Sacramento, CA 95814

**RE: EVALUATION OF INLAND EMPIRE HEALTH PLAN'S MEDICAL LOSS RATIO  
SUBMISSION**

Dear Mr. Babich:

It was a pleasure speaking with you, recently, to discuss the draft report of Inland Empire Health Plan's ("IEHP" or the "Plan") Medical Loss Review for the Healthy Families Program and we appreciate the opportunity to provide further comments.

**A. Concerning Page 4, Table 3 - Other Medical Professional Services - Noncapitated**

The Department expressed concerns that some of the 'Other Medical Professional services' provided by IEHP had no direct relationship to the operation of the Healthy Families Program. The Plan included \$3,748,600 as Children's Health Access Fund on line 11. The \$3,748,600 was been removed from Schedule 6 since DMHC felt there was no evidence provided to demonstrate that the expenses had been spent for the benefit of the enrollees of the HFP.

The Plan respectfully disagrees with the Department's finding as follows:

As we discussed in our conference call on December 2, 2009, IEHP funds a "Children's Health Access Fund" with our key Safety Network Hospitals to ensure that Healthy Families Members are able to access these vital services in their respective communities. These dollars paid by IEHP to the Safety Net Hospitals are a critical component of IEHP ensuring that our Healthy Families Members continue to maintain access to not only the inpatient services provided by the hospital but also the robust Specialty Physician networks that are an integral component of these healthcare systems.

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Steven Babich,  
Supervising Examiner  
Department of Managed Health Care  
December 15, 2009  
Page 2 of 2

Further, the department conducted an Evaluation of IEHP's Medical Loss Ratio in 2007 on behalf of MRMIB. There was discussion of the Children's Health Access Fund at that time. It was determined by DMHC that the fund was relevant to the Healthy Families Program and it was allowed to be included as part of medical costs. Based on that determination, IEHP continued to fund the program, believing that the Department concurred with IEHP regarding the integral nature of the fund. The Plan's Management believed the Plan was fully compliant with MRMIB's regulations.

Additionally, during our discussion on the phone, you informed me that you would discuss with MRMIB the fact that the Children's Health Access Fund was determined to be an allowable medical cost during your previous audit in 2007, hence, the Plan (IEHP) acted appropriately by continuing to include this expense in medical costs. With that in mind, the Plan respectfully requests that the Department reevaluate the determination on these funds and recognize that they are, indeed, a critical component of the overall delivery of the Healthy Families Program by IEHP and should be allowed as an expense.

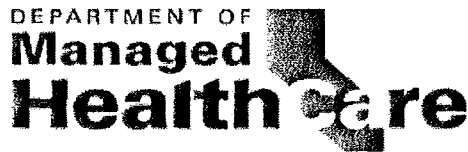
If you have any further questions, please do not hesitate to contact me at (909) 890-2130.

Sincerely,



Chet Uma,  
Chief Financial Officer

cc: ✓ Shuzhi Wei, Examiner, Department of Managed Health Care  
Janette Lopez, Chief Deputy Director, Managed Risk Medical Insurance Board  
Bradley Gilbert M.D., CEO, Inland Empire Health Plan  
Randee Roberts, Director of Finance, Inland Empire Health Plan  
Patricia Kincannon, Director of Compliance, Inland Empire Health



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December 30, 2009

Chet Uma, Chief Financial Officer  
Inland Empire Health Plan  
P.O. Box 19026, San Bernardino,  
CA 92423-9026

**RE: Response to the IEHP's Letter Regarding the Plan's HFP Medical Loss Ratio**

Dear Mr. Uma:

Thank you for your letter dated December 15, 2009. Per DMHC's review, there are six reasons that the Children's Health Access fund can't be included as a medical expense on Schedule 6.

1. The Plan's Board resolution in year 1997 indicated that the "Health Plan provides that a fund, the *Indigent Fund*, be set up for payments to those hospitals which provide uncompensated care to unsponsored patients residing in Riverside and San Bernardino counties". If the fund's purpose was to support the unsponsored patients, it shouldn't be reported on schedule 6 because Healthy Families enrollees didn't fall into the group of "unsponsored patients".
2. According to the audited report of year ending 06/30/2006, the Plan made a \$4,000,000 payout to the capitated hospitals and IPAs as a *provider bonus*. The \$4 million dollar bonus payout represents a 35% increase to the capitation payments. The fund had been used for different purposes since 1997. Prior to the audited year 06/30/2008, the Plan didn't spend any money for the children's access to the network. During this audit, the Plan failed to identify the necessity of the children's access fund which had to be in place in year 2008.
3. The Plan failed to provide the board resolution regarding the approval of the Children's Access Fund.
4. The Plan stated in the letter entitled – IEHP *Children's Health Access Fund*, signed by Mr. Chet Uma and dated 09/01/2009 that "the Children's Health Access program assures IEHP the availability of needed pediatric acute and sub-acute medical services for its Healthy Families members". Per DMHC's review, the Healthy Families members have been under the protection of capitation contracts, fee for services contracts and Pharmacy



contracts with the providers. The Plan failed to demonstrate that the extra \$4 million was needed to assure the availability of the HFP's members medical care.

5. The Plan stated in the same letter that "IEHP's financial exposure without the Children's Health Access program would be significantly higher if any of its Healthy Families members were to be provided medical services at non-contracted/out of area providers". The Plan's Children's Access Fund for year ending 06/30/2008 totaled \$3,748,600 which represented 26% of the total capitation. The Plan failed to demonstrate that the IEHP's financial risk (payment for non-contracted/out of area providers) would be higher than the amount of the Children's access fund plus the payments for treatments under the normal contracted rates.
6. The Plan's Schedule 6 medical loss ratio would have dropped from 85%-89% to 70%-80% if the fund was removed from Sch. 6 during the past 5 years including the audited year. Please see the chart below. The Plan has been using the fund for different purposes since year 1997. It is important to note that if the Plan didn't record the fund expenses on Schedule 6, the Plan's HFP medical loss ratio would have been below the 85% benchmark(see the below chart).

(Note: The Fund was assumed to be \$4 million for year 2004, 2006 and 2007 based on the verbal information provided by the Plan during the audit. The total reported Revenue and expenses were from Schedule 6 provided by MRMIB.)

Year end	Reported Revenue	Reported expenses	MLR incl. fund	MLR excl. fund
6/30/2008	\$41,190,894	\$36,855,194	89.47%	80.37%
6/30/2007	\$35,969,691	\$30,720,840	85.41%	74.29%
6/30/2006	\$31,800,666	\$27,714,699	87.15%	74.57%
6/30/2005	\$27,907,793	\$23,973,155	85.90%	71.57%
6/30/2004	\$26,256,408	\$22,344,106	85.10%	69.87%

In your letter dated December 15, 2009, you stated, in part, that "the department conducted an evaluation of IEHP's medical loss ratio in 2007 on behalf of MRMIB." And further, it states "It was determined by DMHC that the fund was relevant to the Healthy Families Program and it was allowed to be included as part of medical costs." And to summarize, you stated that the Plan believed that it was fully compliant with MRMIB's regulations. I would like to clarify that during your recent telephone conversation referenced in your letter, I didn't agree with you that I felt the treatment of the bonus payments from the audited year ending 06/30/05(which audit was conducted in year 2007) was correct.

Due to all of the reasons stated above, and in light of the Plan's failure to sufficiently demonstrate that the \$3,748,600 children's Health Access Fund was actually spent on HFP members, the DMHC does not believe that the \$3,748,600 qualifies as a schedule 6 medical expense.

If you have any further questions, please contact me at 916-255-2438.

We will attach your December 15<sup>th</sup> letter which states your point of view to the final report for MRMIB's review unless you object.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Babich', with a long horizontal flourish extending to the right.

Stephen Babich  
Supervising Examiner  
Division of Financial Oversight  
Department of Managed Health Care